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Historical Review of Financial Performance of Water Supply Facilities of PDAM Makassar City

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Water availability is a human's basic needs to survive. the municipality has the authority and responsibility regarding PDAM management. The main duty of PDAM is to manage piped drinking water for city residence and industrial needs. However, reports show that so far, PDAM performance is in critical mainly in financial matters. The matters particularly in operational cost and efficiency which brings impact to the service level where PDAM unable to provide maximum service. Therefore, currently PDAM mainly focus to serve urban area.

This paper explain financial performance (historical review) of PDAM in detail that focus on PDAM of Makassar as the case study.

Based on the ratio obtained by Makassar PDAM in 2003 - 2006, it can be said that the contribution of obligations to form the total assets is large enough. However, such fact also shows that Makassar PDAM had ability to pay its long-term liabilities by using its assets was tend to decrease, which means that such situation was very risky for the continual existence of Makassar PDAM.

Key Words : *financial performance, PDAM Makassar City, water supply,*

1. INTRODUCTION

Water availability is a human's basic needs to

survive. Therefore, according to Indonesian Constitution 1945 Section 33 Article (2), (3), and (4), the natural resources including water should be managed by the state and optimally used for the prosperity of

people. In line with it, Drinking Water Management Institution under the management of Department of Public Works has a duty to provide drinking water. Such institution known as PDAM which is a government owned enterprise for water supply and distribution. Thus, the municipality has the authority and responsibility regarding PDAM management. The main duty of PDAM is to manage piped drinking water for city residence and industrial needs. However, reports show that so far, PDAM performance is in critical mainly in financial matters. The matters particularly in operational cost and efficiency which brings impact to the service level where PDAM unable to provide maximum service. Therefore, currently PDAM mainly focus to serve urban area.

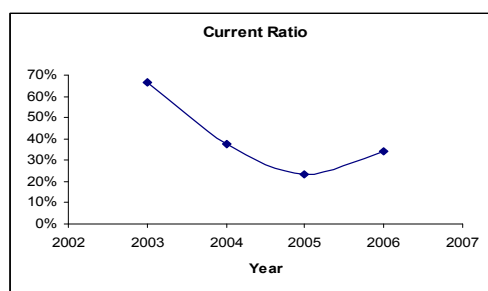
This paper will explain financial performance (historical review) of PDAM in detail that focus on PDAM of Makassar as the case study.

2. LIQUIDITY RATIO

The ratio expresses ability of Makassar PDAM to pay off its short-term debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts.

(1) Current ratio

Current ratio shows contribution of current assets to cover current liabilities. The higher value of the ratio, the higher capability of Makassar PDAM to repay its short-term liabilities out, where the expected ratio value ≥ 1



Source : balance sheet year 2003 – 2006

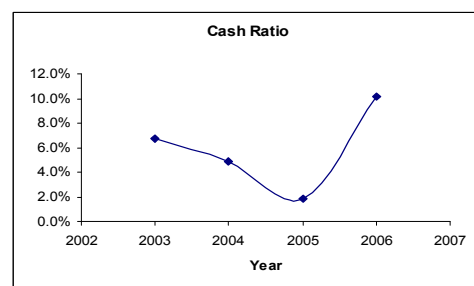
Fig.1 Current ratio.

Figure 1 shows that the ability of Makassar PDAM to cover its short-term debt had decreasing trend between 2003 to 2005 and then increased in 2006. In the average, Makassar PDAM's ratio is 40.2% which is below the ideal ratio (100%). It expresses that the capability of Makassar PDAM to utilize its current assets to pay off its short-term debts obligations is only 40.2%. In other word, every ru-

piah of debt obligation is only covered with 0.42 of current assets. The decreasing trend was driven by the decline of company's circulating assets (cash and cash equivalent, short-term deposit, trade receivable and merchandise inventory). Meanwhile, company's short-term debt obligations increased. The long term impact of this situation is that Makassar PDAM will unable to pay off its short-term debt obligations if only rely on its current assets.

(2) Cash to Current Liabilities ratio

Instead of utilizing its currents assets, cash to current liabilities ratio can be utilized to determine Makassar PDAM to pay its short-term liabilities using possessed cash. Generally, the higher the value of the ratio, the larger the margin of safety that the company owns to cover short-term debts. The expected ratio value is more than 100%



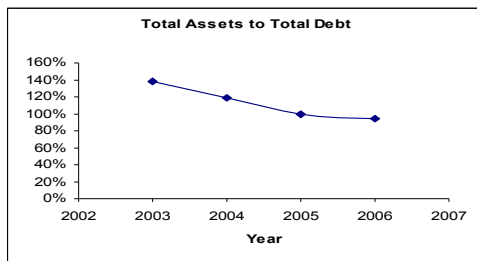
Source : balance sheet year 2003 – 2006

Fig.2 Cash ratio.

Figure 2 shows that Makassar PDAM's capability to cover its short-term debts had decreasing trend between 2003-2005 and increased in 2006. The average cash ratio of 5.9% is far below the ideal ratio value. It expresses that every rupiah of debt obligation is only covered with 0.059 rupiah of possessed cash.

(3) Total Assets to Total Debt

In particular situation, Makassar PDAM may utilize total assets to pay off its debt obligations. Total Assets to Total Debt ratio is a tool to measure the capability of Makassar PDAM to use its total assets cover its total debt. The higher value of the ratio, the higher capability of Makassar PDAM to repay its total liabilities out. The expected ratio value is more than 1.



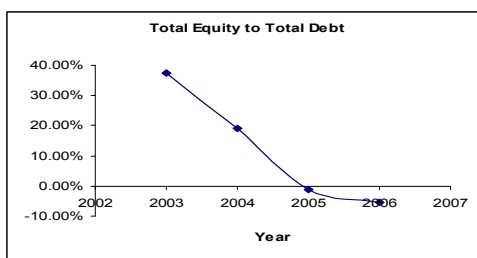
Source : balance sheet year 2003 – 2006

Fig.3 Total Assets to Total Debt ratio.

Financial performance of Makassar PDAM that is measured using Total Assets to Total Debt ratio shows the decreasing trend between 2003 to 2006. This was a critical condition facing Makassar PDAM which brought the company into unsafe situation. Since even though the company utilize the entire assets, it would unable to pay off its total liabilities to its clients, investors, creditors, costumers, and government. These obligations determine the operability of Makassar PDAM in the future.

(4) Equity to Total Debt ratio

Companies that earn profits in their operation are able use its equity to pay their liabilities off. In every company's equity there are accumulated profits which earned in previous periods. However, Makassar PDAM Makassar from 2003 to 2006 were unable to utilize its equity to meet its obligations both short-term liabilities and long-term obligations, because since 2003, Makassar PDAM in its operation failed to create profit. The ratio of total equity to total debt ratio of Makassar PDAM is shown in figure 4.



Source : balance sheet year 2003 – 2006

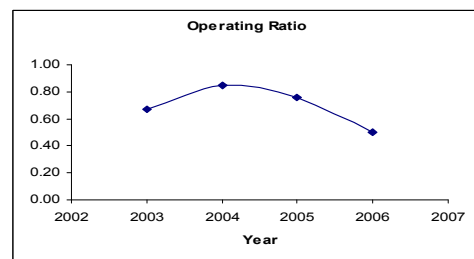
Fig.4 Total Equity to Total Debt ratio.

Based on an analysis to Makassar PDAM's ability to meet its obligations in both the short-term liabilities and long-term obligations with current assets (current ratio, cash to current liabilities), total assets (total assets to total debt) and equity (equity to total debt) shows performance that tends to decrease, which means that current assets, total assets and equity can not be used to pay off the obligations of the company.

3. OPERATING RATIO

(1) Operating ratio

This ratio is used to determine the amount of costs incurred during Makassar PDAM creating revenue. The smaller value of the ratio is better for the company or in other words that the expected ratio is smaller than 1. This ratio can also be used to measure the efficiency level of Makassar PDAM



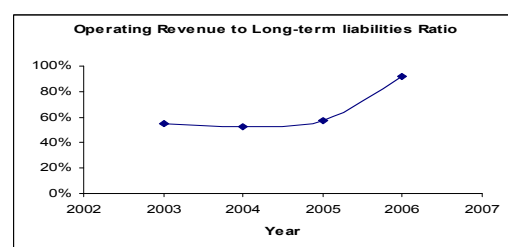
Source : balance sheet year 2003 – 2006

Fig.5 Operating ratio.

Figure 5 shows operating ratio of Makassar PDAM from 2003 to 2006 that was in fluctuating movement. This expresses that efficiency level of Makassar PDAM also fluctuated. In 2003, in order to created 1 rupiah of revenue, Makassar PDAM required operating cost of 0.67 rupiah. Reaching the summit at 2004 and then declined afterward. Decrease in this ratio due to increased revenue Makassar PDAM with a larger proportion than the increase in operating costs.

(2) Operating Revenue to Long-term Liabilities Ratio

This ratio is used to measure the contribution of long-term debt in creating revenue for Makassar PDAM. If the existence of long-term debt is to finance the investment, it can be said that this ratio can also be used to determine the contribution of investment in creating revenue. The greater value this ratio indicates better performance (the ratio ≥ 1).



Source : balance sheet year 2003 – 2006

Fig.6 Operating Revenue to Long Term Liabilities ratio.

Although the value of operating revenue to

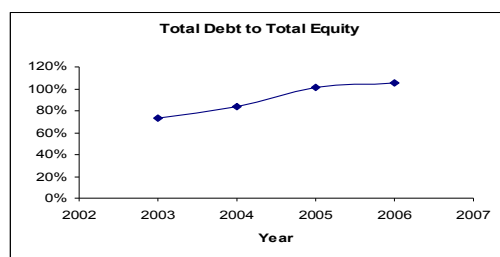
long-term liabilities ratio obtained Makassar PDAM in the period of 2003 - 2006 was likely to show a good value, but it was only caused by changes in each indicator that are not similar to other indicator. Those indicators in this case are operating revenue and long-term liabilities. It can be seen that changes in each value of operating revenue and long-term liabilities. For example, in 2004, Makassar PDAM revenues decreased by 7% while the debt decreased (payable to the creditor) only by 2%. Whereas, in 2005, revenue decreased only by 1% while debt decreased by 10%. Similarly, in 2006 there was an increase earnings by 52% while debt decreased by 5%. The other side of the fluctuations in the debt reduction in 2003 - 2006 indicates that the payment of long-term debt of Makassar PDAM is also likely to fluctuate.

4. SOLVABILITIES

This ratio is utilized to describe the Makassar PDAM ability to pay its long-term liabilities.

(1) Total Debt to Total Assets ratio

This ratio indicates the ability of Makassar PDAM in resolving the long-term liabilities to creditors or investors with total assets/property owned. The smaller this ratio indicates a good performance.



Source : balance sheet year 2003 – 2006

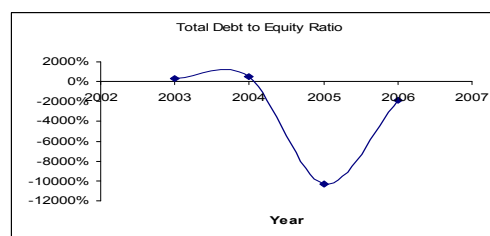
Fig.7 Total Debt to Total Equity ratio.

Based on the ratio obtained by Makassar PDAM in 2003 - 2006, it can be said that the contribution of obligations to form the total assets is large enough. However, such fact also shows that Makassar PDAM had ability to pay its long-term liabilities by using its assets was tend to decrease, which means that such situation was very risky for the continual existence of Makassar PDAM.

(2) Total Debt to Equity ratio

Apart from using corporate property, Makassar PDAM can also take advantage of possessed capital. But this hope was not fully carried out by Makassar

PDAM considering that the capital accumulation which was derived from operation of the company were unable to make a major contribution, since in the period of 2003 – 2006, Makassar PDAM experienced loss while both of municipality and the central government never increase their investment in Makassar PDAM .



Source : balance sheet year 2003 – 2006

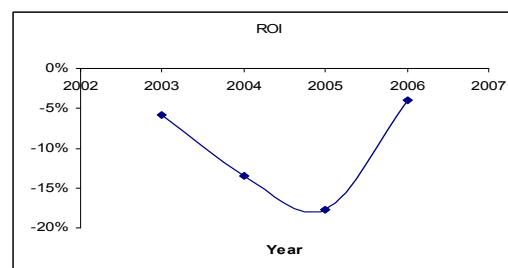
Fig.8 Total Debt to Equity ratio.

5. PROFITABILITY

Profitability ratios or so-called rentability ratio describes the ability of Makassar PDAM to create profit which is derived from its assets and capital.

(1) Return on Investment

This ratio describes the ability of Makassar PDAM in gaining profits through owned assets.



Source : balance sheet year 2003 – 2006

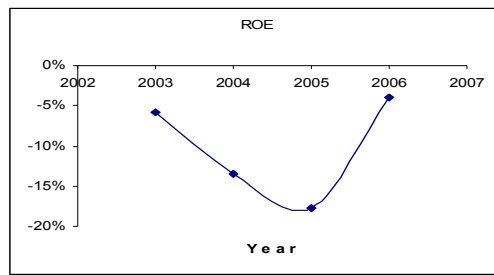
Fig.9 Return on Investment.

Losses suffered by Makassar PDAM had direct impact to the Return On Investment ratio of 2003 to 2005 with the lowest point in 2005, amounting to -18% and then increased to -4% in 2006. This means that the asset management of Makassar PDAM in 2003 - 2006 had not been able to create profits or sales.

(2) Return On Equity

Profits earned by Makassar PDAM not only can be obtained through asset management, but also can be gained through the capital owned. As described earlier (Total Debt to Total Equity and Return On Investment ratio), the impact of Makassar PDAM loss in the period 2003 to 2006 led to ROE values of

Makassar PDAM became negative

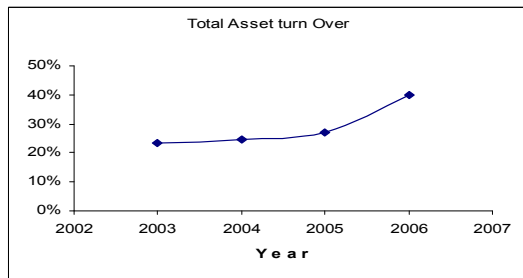


Source : balance sheet year 2003 – 2006

Fig.10 Return on Equity.

(3) Total Asset turn Over ratio

This ratio indicates how much the contribution of assets to create sales. In the period 2003 - 2006, Makassar PDAM capability tend to increase in creating sales which was derived from utilization of owned assets.



Source : balance sheet year 2003 – 2006

Fig.11 Total Asset turn Over.

However in its operation, sales which generated during that period were unable to produce the maximum benefit due to the fluctuation of operating costs (see operating ratio). Decrease or increase in operating costs attributable to changes in water source cost and raw water treatment costs which are influenced by the raw materials price or components price and other expenses such as electricity costs.

6. SUMMARY

The ability of Makassar PDAM to cover its short-term debt had decreasing trend and then increased in period of 2006. In the average, Makassar PDAM's ratio is 40.2% which is below the ideal ratio (100%) and the average cash ratio of 5.9% is far below the ideal ratio value.

Operating ratio of Makassar PDAM was in fluctuating movement. This expresses that efficiency level of Makassar PDAM also fluctuated. The other side of the fluctuations in the debt reduction indicates that the payment of long-term debt of Makassar PDAM is also likely to fluctuate.

Based on the ratio obtained by Makassar PDAM in 2003 - 2006, it can be said that the contribution of obligations to form the total assets is large enough. However, such fact also shows that Makassar PDAM had ability to pay its long-term liabilities by using its assets was tend to decrease, which means that such situation was very risky for the continual existence of Makassar PDAM.

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